

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION)
OF CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF A CHANGE IN ITS) PSC DOCKET NO. 15-1362
GAS SALES SERVICE RATES ("GSR") TO BE)
EFFECTIVE NOVEMBER 1, 2015)
(FILED SEPTEMBER 1, 2015))

ORDER NO. 8954

AND NOW, this 6th day of October, 2016:

WHEREAS, in Docket No. 00-523, by Order No. 5828 (November 6, 2001), the Delaware Public Service Commission (the "Commission") approved a Settlement Agreement in which the Commission adopted the following pricing principles to be applied to certain types of transactions between Chesapeake Utilities Corporation ("Chesapeake" or the "Company") and its affiliated companies:

Pricing Principles. The Settling Parties agree that subject to the provisions set forth below, for transfer of assets between Regulated Activities ("Chesapeake") and Non-Regulated Activities ("Affiliate") asymmetric pricing principles (i.e. for transfers from Chesapeake to the Affiliate, the higher of fully allocated cost or market price; for transfers from the Affiliate to Chesapeake, the lower of fully allocated cost or market price) shall apply. Asymmetric pricing principles shall also apply to the provision of services, exclusive of shared services or common support services, provided however that if the market price of such service is not reasonably ascertainable, fully allocated costs will be used;

AND WHEREAS, in Docket No. 08-269F (Phase II), by Order No. 7778 (May 18, 2010), the Commission reaffirmed that the asymmetrical pricing provisions apply to capacity release transactions between the Company and its non-regulated affiliate Peninsula Energy Services Company, Inc. ("PESCO");

AND WHEREAS, on August 9, 2016, by Order No. 8924, the Commission adopted the Findings and Recommendations of the Hearing Examiner in the above-captioned docket and approved the April 5, 2016 settlement agreement ("Settlement Agreement") proposed by Chesapeake, the staff of the Commission ("Staff") and the Division of the Public Advocate ("DPA"), in which the Company agreed that prior to the execution of a new asset management agreement ("AMA")¹ or the renewal of its current AMA, it would either: (1) reach an agreement with Staff and DPA regarding a revenue-sharing mechanism (rather than a flat fee) to be used in an AMA with PESCO or (2) use a request for proposal ("RFP") process to select its next asset manager;²

AND WHEREAS, pursuant to the Settlement Agreement, Staff, DPA, PESCO and the Company have met, and the Company and PESCO have responded to certain data requests propounded by Staff and DPA;

AND WHEREAS, Staff, DPA and the Company have agreed that an AMA that requires both a guaranteed fixed fee and a sharing of the asset manager's revenues above the fixed fee will potentially provide greater value to the Company's GSR customers than a fixed fee only AMA, and that the Company's use of PESCO (rather than a third-party

¹ Under its AMA, Chesapeake releases its upstream capacity (i.e.; its pipeline assets that are located upstream of the Eastern Shore Natural Gas Company ("ESNG") pipeline) to the asset manager and the asset manager ensures delivery of Chesapeake's gas supply requirements to Chesapeake's receipt point on the ESNG pipeline. Chesapeake then ships the gas to its local distribution system for delivery to its customers. When the asset manager does not need the released upstream capacity for Chesapeake's supply requirement, it can derive value from that capacity as a gas marketer. In exchange for its use of the released capacity, the asset manager pays Chesapeake an AMA fee. Pursuant to prior Commission orders (including Order No. 8924 adopting the Settlement Agreement in this docket), the Company credits 92.5% of the AMA fee to its Gas Sales Service Rate ("GSR") customers.

² Chesapeake's current AMA expires on March 31, 2017.

marketer) as its asset manager will provide greater transparency of the asset manager's accounting for and reporting of the revenues derived from its use of the pipeline capacity released under the AMA;

AND WHEREAS, although the Commission approved a settlement agreement in Docket No. 13-383 calling for the Company to remove a portion of its pipeline capacity from its AMA for direct release into the capacity market, Staff, DPA and the Company (the signatories to the Docket No. 13-383 settlement) agree that the Company's pipeline assets will likely yield greater market value in total if all such capacity remains in the AMA (and is re-releasable into the market) under the management of the asset manager;

AND WHEREAS, the Company and PESCO shared a proposed AMA with Staff and DPA;

AND WHEREAS, Staff and the DPA have negotiated with the Company regarding the terms of the proposed AMA;

AND WHEREAS, Staff, the DPA, Chesapeake and PESCO have agreed to a proposed AMA that includes the following provisions: (1) a fixed AMA fee that is higher than the fixed fee in the current AMA plus a sharing of revenues above that fee; (2) a three-year term; (3) a release to the asset manager of all of the Company's upstream capacity (and an allowance for re-release of the capacity); (4) audit rights authorizing the Company, Staff and DPA to inspect PESCO's records and books of account (on a confidential basis); and (5) a quarterly reporting requirement requiring PESCO to show all revenues derived utilizing the pipeline assets released under the AMA (on a confidential basis);

**NOW, THEREFORE, IT IS HEREBY ORDERED BY THE AFFIRMATIVE
VOTE OF NOT FEWER THAN THREE COMMISSIONERS:**

1. That, notwithstanding any prior settlement agreements approved by the Commission relating to Chesapeake's use of an asset management agreement, the Commission hereby authorizes Chesapeake to utilize its marketing affiliate, Peninsula Energy Services Company, Inc., as its asset manager pursuant to the terms of the Asset Management Agreement described herein negotiated by Staff, the DPA, Chesapeake and PESCO.

2. That the Commission hereby waives the asymmetrical pricing rules adopted by the Commission pursuant to Commission Order No. 5828 dated November 6, 2001 and Order No. 7778 dated May 18, 2010, to the extent necessary to permit Chesapeake to enter into an AMA with PESCO pursuant to the terms of the Asset Management Agreement described herein negotiated by Staff, the DPA, Chesapeake and PESCO.

3. Staff and the DPA and their outside consultants shall have the right, upon no less than five (5) Business Days prior written notice and at reasonable times during normal business hours and subject to suitable confidentiality protections, to enter PESCO's offices and inspect and copy PESCO's records and books of account, but only to the extent necessary to audit any statement provided to Chesapeake by PESCO, and to assure that amounts paid or billed to Chesapeake are correct in all respects. Chesapeake and PESCO shall bear all the costs of performing any audit performed by Staff and DPA. Such rights to audit shall be available for the term of this AMA and for two (2) years thereafter. PESCO shall provide quarterly reports

to Staff and DPA no later 60 days upon the conclusion of each quarter, showing all revenues derived utilizing the transportation and storage contracts listed in Exhibit A of the AMA for the quarterly reporting period. All audits and reporting shall be on a confidential basis. In lieu of or in addition to on-site review of PESCO's books and records, the Staff, DPA and/or its outside consultants may request, and PESCO shall produce to them in Delaware, any documents to audit the statements provided to Chesapeake.

4. That PESCO agrees to submit to this Commission's jurisdiction for the resolution of disputes about any activity arising out of the AMA, including any disputes with respect to the quarterly reports required by the Asset Management Agreement, the Shared Revenue (as that term is defined in the Asset Management Agreement), and any audit conducted by the Staff or the DPA as permitted by the Asset Management Agreement.

5. The AMA shall be effective as of April 1, 2017 and shall continue for three (3) years ending March 31, 2020 unless earlier terminated pursuant to the provisions of the Asset Management Agreement. Chesapeake, PESCO, Staff, and the DPA may meet and confer to determine whether a subsequent AMA is appropriate under the same or modified terms.

6. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

Chair

Commissioner

Commissioner

Commissioner

Commissioner

ATTEST:

Secretary